

Interim Loan Program Guidelines

Program Overview

King County Housing and Community Development (HCD) will administer an interim loan program for acquisition of property for low income housing using Homeless Housing and Services Program funds (derived from RCW 36.22.178 and 36.22.179), and Mental Illness and Drug Dependency (MIDD) Housing Services funds (derived from King County Ordinance 15949), in the Housing Opportunity Fund (HOF).¹ These fund sources are collected and awarded to projects annually but are spent down slowly over a period of five years, creating a fund balance that is carried over from year to year. Interim loans will have open applications at any time throughout the year in order to facilitate the acquisition of suitable property for affordable housing projects at the time the property is available.

The interim loan fund will allow rapid access to low-cost funds for experienced affordable housing developers who will partner with King County in reaching our goals for affordable and homeless housing. The borrower will have a maximum of five years to acquire permanent project financing before repayment on the interim loan is due. The HCD interim loans can also be used to take out a higher rate property acquisition loan and may be combined with loan funds provided by other lenders. Interim loans are intended to allow projects to proceed when the sponsor can provide satisfactory assurance to HCD that permanent funding will be provided from other sources on acceptable terms within a reasonable period of time. Six million dollars will be the maximum amount available in the interim loan fund at any point in time. The decision whether to approve an interim loan application is within King County's sole and complete discretion. This program is not intended to create any right or entitlement to interim loan funding for potentially eligible applicants.

Interim Loans General Conditions

- Except as otherwise specified below, interim loans are subject to the same conditions or policies for any capital housing funds allocated by the HCD program, except those specifically applicable to interim loans as described below.
- Interim loans may be made only when, in the judgment of the Interim Loan Committee and the DCHS Director, the borrower provides reasonable assurance that the funds will be used for eligible purposes, that permanent funding will be available on acceptable terms to ensure repayment of the funds before the loan maturity date, and that appropriate security is provided by the borrower to guarantee repayment.
- No more than one outstanding interim loan per borrower may be held at one time.

¹ The funds that are to be utilized for this project are derived solely from local homeless housing and assistance surcharges authorized under RCW 36.22.178 and RCW 36.22.179.

Interim Loan Program Guidelines

Interim Loans Purpose

The Interim Loan Program was created to provide low-cost financing for the acquisition of property that will be developed to provide low-income housing to households at or below 50 percent of (AMI), including a portion of units for homeless households, as outlined below.

Interim Loans Priority

Interim loan priority will be afforded to projects proposing development of permanent affordable housing that includes homeless housing. The housing may be located anywhere in King County if it meets site criteria. The program will prioritize projects that are designed with at least 25 percent of the units in the project set-aside for homeless households. The affordability of the units must be for households at or below 50 percent of AMI, with the target for homeless units to households at or below 30 percent of AMI. For the purposes of the interim loan program, projects will need to submit preliminary plans for an appropriate level of supportive services for the targeted homeless population(s) provided on the site identified.

Geographic Coverage

The interim loan program is intended to encourage the development of affordable housing that includes units set aside for homeless households throughout King County. The HCD Program will use the geographic targets established in the Regional Affordable Housing Program as a general guide to disburse loans throughout King County.

Potentially Eligible Borrowers

To be potentially eligible for an interim loan, the project borrower must meet the following criteria:

- Borrower has developed and operated at least three publicly funded capital projects in King County
- Borrower has completed annual independent organizational financial audits that reflect an unqualified opinion with no findings or material weaknesses that would indicate concerns about the financial operations of the borrower, and borrower has forwarded to HCD the last three years independent financial audits, as well as management letters
- Borrower is in good standing with local public funders, including being current with annual report submissions
- Borrower's publicly funded properties are well maintained and performing to industry standards and are in compliance with public funder regulatory and loan agreement terms
- Deposits have been made in borrower's replacement and/or operating reserve accounts in accordance with public funder contract requirements

Interim Loan Program Guidelines

- All borrower projects are current with any debt service including public funder loan payments, taxes and insurance
- Borrower's development track record demonstrates that projects were completed within acceptable timelines and within budget
- Borrower's current pipeline is sized such that they can demonstrate the ability to secure permanent funding and pay off the interim loan within five years

Loan Rate, Term and Requirements

- The interest rate on King County interim loans shall be three percent simple interest with accrued interest paid in full when the interim loan is repaid
- The maximum term of an interim loan shall be five years
- Up to 100 percent loan to value ratio allowed
- All loans will be secured with a lien on the property acquired
- While King County may subordinate to other loans that are larger than the King County loan, an affordability covenant agreement will be placed in first lien position
- Non-performance of loan terms: in the event of non-performance under the terms of the loan, King County may, in addition to other applicable remedies, transfer a site to a new owner who will develop the site into affordable housing
- If the property must be sold with a release of the affordability covenant, all proceeds shall go to the lender(s) first in order to make the lenders whole. Documented costs incurred by the borrower, which have been specifically approved by King County will be reimbursable to the extent enough proceeds are available
- Borrower shall begin the process to secure permanent financing from public and private funders, as applicable, within a year from the time the interim loan is made, and shall submit an application to King County through the Notice of Funding Availability process for permanent capital funding as soon as reasonably plausible
- Borrower must provide American Land Title Association title, liability and property insurance for the property
- Borrower must provide semi-annual progress reports regarding efforts to secure permanent financing and the use of the interim loan funds, and shall provide audited/unaudited financial statements throughout the term of the loan
- In the event that a property is transferred to a new owner and the original interim loan program borrower made a King County approved equity investment in the property, the original borrower may seek compensation for that equity investment from the new owner. The new owner may seek to increase the interim loan amount for the site in order to provide such compensation to the original borrower (Example: Original borrower invested \$300,000 in King County-approved expenditures and received an interim loan for \$1.7 million to acquire a \$2 million property. New owner will compensate original borrower for the

Interim Loan Program Guidelines

\$300,000 and may seek to increase the interim loan above \$1.7 million to cover compensation to original borrower)

Site and Other Criteria

- Site is zoned for proposed use, or the proposed use is compatible with the comprehensive plan of the jurisdiction where the site is located, and a letter of such compatibility from the appropriate jurisdiction is submitted
- Site has no outstanding environmental issues
- There is a current appraisal (within six months) on the site that supports the amount of the interim loan
- Site is suitable for proposed use and does not present adverse development constraints, in the judgment of the jurisdiction of the project site, such as critical areas, wetlands, environmental contaminants, steep slopes, etc
- If site will involve relocation of existing residential or commercial tenants, when permanent financing is secured, a plan and budget are required that demonstrate compliance with King County, federal and state requirements

How to Apply

Prior to submitting an application for a interim loan, borrower must schedule a pre-application meeting with King County HCD staff, at which time it will be determined if borrower can submit an application.

Applicants should allow a reasonable review time and at least six weeks to closing. The application will be presented to the DCHS Loan Committee, which will make a recommendation to the DCHS Director for a final decision. Application materials to be submitted shall include the following:

- Evidence of site control
- Phase I environmental assessment
- Zoning compliance letter or letter from the jurisdiction's planning director confirming that proposed use is compatible with the jurisdiction's comprehensive plan and has a reasonable expectation of a rezone, if necessary, to accomplish an objective of the comprehensive plan
- Complete residential appraisal, supporting the purchase price
- Proposed development budget with sources and uses
- Proposed operating budget

Interim Loan Program Guidelines

- Annual audit reports and management letters for the last 3 years conducted by an independent certified public accounting firm
- Other materials as King County HCD deems necessary to complete loan underwriting.